

OFFICES OF THE
STATE AUDITOR OF MISSOURI
JEFFERSON CITY

SPECIAL REVIEW OF
NEWTON COUNTY, MISSOURI
COURTHOUSE RENOVATION PROJECT
1996 - 1998

MARGARET KELLY, CPA



Report No. 99-07
January 6, 1999

SPECIAL REVIEW OF
NEWTON COUNTY, MISSOURI
COURTHOUSE RENOVATION PROJECT

TABLE OF CONTENTS

	<u>Page</u>
STATE AUDITOR’S REPORT	1
EXECUTIVE SUMMARY	2-3
MANAGEMENT ADVISORY REPORT	4-9



STATE AUDITOR OF MISSOURI
JEFFERSON CITY, MISSOURI 65102

MARGARET KELLY, CPA
STATE AUDITOR

P.O. Box 869
(573) 751-4824

County Commission of Newton County, Missouri

We have conducted a special review of the courthouse renovation project of Newton County, Missouri, 1996 to 1998. The objectives of this review were to:

1. Investigate the suspected over billing by a courthouse renovation project contractor.
2. Determine the amount of over billing.
3. Review and evaluate contracts between the county and contractors performing work on the courthouse renovation project.
4. Review and evaluate the county's compliance with purchasing requirements and other relevant laws and procedures related to the courthouse renovation project.

Our review was made in accordance with applicable generally accepted government auditing standards and included such procedures as we considered necessary in the circumstances. In this regard, we reviewed the financial records, contracts, and other pertinent procedures and documents.

Our review was limited to the specific matters described above and was based on selective tests and procedures considered appropriate in the circumstances. Had we performed additional procedures, other information might have come to our attention that would have been included in this report.

The accompanying Management Advisory Report presents our findings and recommendations arising from our special review of the courthouse renovation project of Newton County, Missouri.

A handwritten signature in black ink that reads "Margaret Kelly". The signature is fluid and cursive, with the first letters of each name being capitalized and prominent.

Margaret Kelly, CPA
State Auditor

December 14, 1998

EXECUTIVE SUMMARY

SPECIAL REVIEW OF
NEWTON COUNTY, MISSOURI
COURTHOUSE RENOVATION PROJECT
EXECUTIVE SUMMARY

Newton County spent in excess of \$1 million on a courthouse renovation project from 1996-1998, which was poorly planned and managed by the County Commission. The county did not develop any formal plans related to the renovation project. The County Commission entered into a verbal agreement with a local contractor, Roger Hulsey Enterprises, to serve as the general contractor on the project. The county agreed to reimburse the contractor for his material and labor costs plus a 10 percent commission. The county paid the contractor a total of \$507,192 through September 1998 without requiring the contractor to provide documentation of his actual costs.

Based on a review of the work completed by the contractor, an independent construction management firm hired by the Sheriff estimated the contractor may have over billed the county \$141,497. We reviewed the financial records of the contractor and based on those records, it appears the contractor over billed the county at least \$74,701. Many of the invoices were not clear as to whether they related to the courthouse renovation project, and over \$100,000 of \$545,000 of invoices which, might have identified additional over billing by the contractor were not available from the contractor. The contractor was unable to provide any worksheets or documentation of how the billings were calculated. It also appears that while the County Commission paid the contractor a wage rate in excess of the prevailing wage rate the contractor did not always pay his labor at the prevailing wage rate.

Our prior audit report of Newton County, for the three years ended December 31, 1996, indicated the county had not solicited bids on \$250,000 of renovation work performed by the contractor and other vendors hired directly by the county. Although the County Commission indicated it would make an effort to comply with purchasing requirements, significant deficiencies were again noted during the review of the courthouse renovation project.

MANAGEMENT ADVISORY REPORT

SPECIAL REVIEW OF
NEWTON COUNTY, MISSOURI
COURTHOUSE RENOVATION PROJECT

Newton County Courthouse Renovation Concerns

Newton County began renovating its courthouse in 1995 after the completion of the new Sheriff's Department and Jail Facility. The third floor of the courthouse contained the old jail which was relocated to the new facility. The County Commission began informal plans of converting the old jail to new office space in early 1995. Through September 1998, the county had spent in excess of \$1 million on the courthouse renovation project.

The county entered into a verbal agreement with a local contractor, Roger Hulsey Enterprises, to serve as the general contractor for the renovation project in early 1996. Payments to this contractor total \$507,192 through September 30, 1998. In June 1998, the Sheriff was advised by the Prosecuting Attorney of possible over billings by the contractor. On September 10, 1998, the County Commission terminated the work authorization agreement with the contractor. The Sheriff initiated an investigation of the courthouse renovation project and in September 1998, requested the State Auditor's office to assist in reviewing the records. During our review of the project, the following areas of concern were noted related to the county's agreement and payments to the contractor:

- A. The Sheriff hired a construction management firm to review the work performed by the contractor and provide an estimate of the costs incurred by the contractor based on industry standards. According to the construction report prepared by the construction management firm, the value of the work performed by the contractor was estimated at \$365,695. Based on billings paid of \$507,192, the firm estimated the contractor overbilled the county by approximately \$141,497.

We reviewed the financial records of the contractor during the time of the renovation project. Based on our review of the contractor's records, it appears the contractor accounted for all of his construction activity in his construction account. During the project period, the contractor deposited approximately \$548,000 in this account (including \$507,192 in county payments). The difference represented revenue from jobs other than the courthouse project and interest. During this same time period, the contractor made disbursements totaling \$545,154 from this construction account.

We reviewed these disbursements and attempted to identify which amounts were spent on the courthouse project. Based on this review, it appears the contractor over billed the county at least \$74,701 as follows:

Total disbursements	\$545,154
Expenditures unrelated to the courthouse	<u>(151,980)</u>
Maximum courthouse renovation costs	\$393,174
Plus Contractor fee (10%)	<u>39,317</u>
Maximum courthouse renovation costs and fee	\$432,491
Total billed by contractor	<u>507,192</u>
Minimum over billed	<u>\$ 74,701</u>

It appears one method of overbilling related to labor costs. The contractor stated he billed the county at \$25 per hour, but he paid his two main subcontractors substantially less (\$10 or \$15 per hour). Based on actual wage payments to these two individuals, it appears the contractor over billed the county approximately \$67,200 for these two subcontractors.

Many invoices were not clear as to whether they were related to the courthouse renovation project and invoices related to some of the vendors, totaling over \$100,000 were not available from the contractor. These amounts were included in the maximum courthouse costs above, although it appears some of the disbursements could have been unrelated to the courthouse project. In addition, all of the actual payroll costs have been included as courthouse costs, although the contractor had other construction projects ongoing at the time. Therefore, the actual amount overbilled is most likely larger.

Information regarding these over billings has been turned over to law enforcement officials.

- B.1. The County Commission did not enter into a formal written agreement with the contractor. According to the commission, the county verbally agreed to pay the contractor for his material and labor costs plus a 10 percent commission. This agreement was not mentioned in the commission minutes.

Written agreements provide the framework necessary to detail the services to be provided and the compensation to be paid. In addition, Section 432.070, RSMo 1994, prohibits a county from making a contract unless it is in writing. In addition to being required by statute, written contracts are necessary to document the duties, rights, and responsibilities of each party and should establish performance criteria which must be met prior to payment for work completed. Commission minutes should document approval of all agreements.

2. The invoices submitted to the county by the contractor were inadequate, providing little to no detail of the material and labor costs incurred by the contractor. In addition, the invoices did not include any calculation of the contractor's fee. As noted above, the county verbally agreed to pay the contractor for his costs plus a 10 percent commission.

The County Commission stated they requested the contractor provide additional detail of the amounts billed; however, they noted they did not insist on the detail to substantiate the amounts claimed. The County Commission exercised extremely

poor oversight responsibility of this contractor by allowing the billing practice to continue for over two and one half years, and making payments totaling \$507,192.

Adequate supporting documentation is necessary to substantiate the validity and propriety of the amounts claimed by the contractor for his material and labor costs. Given the lack of detail noted on the invoices, reasonableness and propriety of the amounts claimed by the contractor cannot be ensured. Considering the nature of the agreement, detailed time sheets of labor costs incurred and paid invoices for materials purchased by the contractor should have been required to support the amounts claimed by the contractor.

3. The County Commission indicated they had informed the contractor that prevailing wages were required to be paid on the courthouse renovation project. However, the county did not require the contractor to provide supporting documentation of wages paid to ensure the requirement had been met. It appears the contractor did not pay prevailing wages on some of the labor on the project although he billed the county at a rate in excess of the prevailing wage.

Section 290.250, RSMo 1994, requires the prevailing wage to be paid to all workers employed by or on behalf of any public body, who performs construction work projects other than routine maintenance. While it is the contractor's duty to pay the wages, the county did not monitor the wages paid by the contractor to ensure the prevailing wage requirement had been met.

- C. The County Commission did not develop any formal plans related to the courthouse renovation project. According to the commission, informal plans were developed at the beginning of each office based on the office holder's needs. The commission stated they maintained complete control of the project in this manner. Considering the size and the costs of the project (approximately \$1 million), the county should have solicited the services of a professional engineering firm to draw formal plans that could have been utilized to properly bid the various aspects of the project. In addition, an engineering firm could have monitored the progress of the project, ensured the quality of the work, and approved the billings.
- D. As noted in our prior audit report of Newton County for the three years ended December 31, 1996, the county did not solicit bids on over \$250,000 of the remodeling work. Subsequent to this, it appears the county did solicit bids for some of the courthouse renovation project work performed. Some evidence of bids was noted for the heating and cooling system improvements and the replacement of windows on the third floor of the courthouse. However, the county did not solicit or document bids for the following significant areas:

Roger Hulsey Enterprises	\$507,192
Electrical work	134,643
Cabinets and wood products	123,402
Elevator extension	48,850
Concrete work	10,563

Section 50.660, RSMo Cum. Supp. 1996, requires the advertisement for bids for all purchases of \$3,000 or more, and the solicitation of bids for purchases greater than

\$1,000 from any one person, firm, or corporation during any period of ninety days. Bidding procedures for major purchases provide a framework for the economical management of county resources and help assure the county that it receives fair value by contracting with the lowest and best bidder.

In addition, competitive bidding ensures all interested parties are given an equal opportunity to participate in county business. Documentation of bids should always be retained as evidence of compliance with the county's established purchasing procedures and statutory requirements. Documentation of bids should include, at a minimum, a listing of vendors/contractors from whom bids were requested, a copy of the request for proposal, a newspaper publication notice, if applicable, a copy of all bids received, the basis and justification for awarding the bid, and documentation of all discussions with vendors.

WE RECOMMEND the County Commission:

- A. Continue to work with law enforcement officials regarding any criminal prosecution and obtain restitution for over billings.
- B.1. Enter into written agreements for all services which detail all duties to be performed and the compensation to be paid.
 - 2. Ensure adequate supporting documentation is submitted to substantiate amounts claimed for actual costs incurred by the contractor.
 - 3. Ensure prevailing wage is paid on all construction projects as required by law.
- C. Ensure major construction projects are properly planned and monitored.
- D. Solicit bids for purchases in accordance with Section 50.660, RSMo. Documentation of bids solicited and justification for bid awards should be retained by the County Clerk. If it is not practical to obtain bids in a specific instance, or if sole source procurement is necessary, the circumstances should be thoroughly documented.

AUDITEE'S RESPONSE

- A. *The County Commission will continue to work and co-operate with law enforcement officials.*
- B.1. *This will be done and the County Commission wishes it had been done in this instance.*
 - 2. *The County Commission typically reviews invoices much more thoroughly and will do this in the future.*
 - 3. *The County Commission told the contractor he needed to pay prevailing wage and believed he billed them for it. The commission gave the contractor the related prevailing wage paperwork.*
- C. *The County Commission used drawings, prepared by a retired architect, in conjunction with each officeholder.*

- D. *The County Commission said it did get quotes for cabinets from some other vendors, but the vendors were too small and could not supply the volume needed. The county now has a purchasing agent or manager who has implemented many new procedures and controls. Overall, the commission believes the work completed needed to be done and was of good quality.*

This report is intended for the information of the county's management and other applicable government officials. However, this report is a matter of public record and its distribution is not limited.

* * * * *